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SUBJECT: BRAZIL'S FINANCE MINISTRY MAKES PITCH FOR  
AGGRESSIVE TARIFF REDUCTIONS IN NAMA NEGOTIATIONS

1. (U) Summary. An aggressive tariff cutting proposal for WTO Doha Development Agenda (DDA) non-agricultural market access negotiations (NAMA), put forward internally by Brazil's Finance Ministry, has generated a storm of protest by the country's private sector and largest labor union, and angst for Brazilian negotiators who are concerned that public discussion of the proposal has exposed Brazil's bottom line. In government deliberations, the Finance Ministry has proposed the GoB advocate a simple Swiss formula approach to tariff reduction for industrial products utilizing 15 as the formula coefficient; the Finance Ministry proposal is in line with USG calls for adoption of a Swiss formula in the NAMA negotiations with two different coefficients, one for developed countries, the other for developing countries. However, Finance's proposal is at odds with the approach Brazil previously formulated with Argentina and India and which continues to define the GoB's official position. On September 19, Brazil's inter-ministerial trade chamber, CAMEX, decided to continue deliberation on four tariff reduction proposals, including Finance's, in order to analyze new studies, expand consultations with the private sector and interested social groups, and assess prospects for significant advances in the WTO agricultural negotiations. Even if not adopted by the GoB as is, Finance's proposal may give some glimpse into Brazil's potential market opening for industrial products. End Summary.

2. (U) On September 6, the coordinating committee for Brazil's inter-ministerial Trade Chamber (CAMEX) received four proposals on the level of market opening Brazil would be willing to provide for non-agricultural products in the NAMA negotiations should adequate advances be made in the agriculture talks. An aggressive tariff cutting proposal put forward by the Finance Ministry sparked substantial criticism from other ministries and the private sector. Finance's proposal differed significantly from the three proposals put forward by the Ministry of Development, Industry and Trade (MDIC), the Foreign Ministry, and the Coalizao Empresarial (Business Coalition) not only in the level of market opening recommended, but also in that it was based on a simple Swiss formula; the other proposals were premised on the April 2005 Argentina-Brazil-India (ABI) NAMA tariff cutting proposal, which links a country's item-specific tariff cuts, and establishment of bindings, to its existing overall level of tariff protection.

3. (SBU) According to Maria Elisa Maia (please protect), of the Foreign Ministry's Market Access Division, the Finance Ministry had not been active in internal discussions on the NAMA negotiations until April of this year, at which point, as it searched for new policy tools, it seized on the idea of reducing Brazil's import tariffs as a means of inducing economic growth. Maia told Econoff that sharp differences then emerged between Finance and MDIC, industry's principal advocate. Finally in an attempt to overcome the internal impasse, the Foreign Ministry and MDIC asked Finance to produce something in writing to give better definition to their vision. The result was the September 6 Finance proposal, unexpected in its form (simple Swiss formula) and aggressiveness.

4. (U) According to press reports, Finance used 15 as the formula coefficient, which would reduce Brazil's maximum consolidated tariff rate from 35 percent to 10.5 percent; its average consolidated tariff rate from 30 percent to 9.78 percent; and its average applied tariff rate from 10.5 percent to 7.4 percent (some reports cited a drop from 10.77 percent to 7.39 percent in the Mercosul bloc average applied tariff). As a result, final tariff levels would be below current applied tariff rates for 62 percent of the 8,822 tariff lines Brazil has registered with the WTO. In arguing that its proposal is not too aggressive, Finance said it had proposed flexibility for 5 percent of the tariff lines and implementation would be over 10 years.

15. (U) On September 8, daily Folha de Sao Paulo published the following table with eighteen examples of how the Finance Ministry's tariff cutting formula would affect certain groups of products:

	Average Bound Rate	Effective Applied Rate	Proposed Tariff
Autos, tractors, auto parts	33.31	24.44	10.31
Clothes and accessories	35.00	20.00	10.50
Cotton	35.00	16.30	10.50
Shoes and gaiters	35.00	19.64	10.50
Toys and Games	35.00	20.00	10.50
Arms and munitions	34.52	20.00	10.45
Umbrellas, walking sticks	35.00	19.25	10.50
Organic chemical prods	23.39	12.55	8.92
Pharmaceutical prods	34.78	13.79	10.47
Electronics - TVs, stereos	32.65	16.18	10.14
Glass	34.79	14.64	10.48
Pearls, precious and semiprecious stones	35.00	15.24	10.50
Perfumes and essential oils	24.42	17.46	9.28
Instruments/apparatus, optical, photo, med-surgical, cinematographic	33.02	15.22	10.18
Iron, cast iron, and steel	35.00	12.77	10.50
Books, periodicals, engravings	35.00	16.00	10.50
Paper, cartons, other cellulose products	33.74	13.66	10.17
Furniture, lamps, mattresses, furnishings	32.73	17.65	10.02

16. (SBU) Much to the consternation of Foreign Ministry negotiators, details of Finance's proposal were leaked to the press and widely reported. Maia claimed the leaked proposal was not the final, but implied there was not much difference between the two versions.

17. (U) The Finance Ministry has publicly defended its proposal on macroeconomic grounds. While acknowledging that NAMA tariff concessions constitute part of Brazil's mix for trade-offs in the DDA negotiations, the Finance Ministry argues that aggressive tariff reductions would have the further benefit of enhancing Brazil's overall competitiveness and thereby helping to spur economic growth. Not surprisingly, the Ministry of Agriculture was mentioned as supporting Finance's proposal, arguing that the country should be more forward leaning in the NAMA negotiations to obtain desired concessions in agriculture.

18. (U) Opponents to Finance's proposal mobilized quickly. MDIC Minister Furlan publicly opposed Finance's proposal as too aggressive as did Paulo Skaf, president of Sao Paulo's Federation of Industries (FIESP). Ministers in a September 19 CAMEX meeting, used in part to prepare for the WTO quad (US, EU, Brazil, India) meeting in Paris September 22-23, listened to criticism of the proposal from representatives of the private sector, and received studies done by the Institute of Applied Economic Research (Ipea) and the Brazilian Agency for Industrial Development (Abdi), which predict decimation of certain industrial sectors under Finance's proposal. The powerful CUT labor union argued for slower liberalization citing a study by Unicamp (University Campinas) that links protection, with government support for modernization, to increased productivity. However, while not supporting such an aggressive opening as advocated in Finance's proposal, Soraya Rosar of the National Confederation of Industries (CNI) told reporters that her organization could accept use of a simple Swiss formula, depending on the coefficient used.

19. (U) Despite the outcry over Finance's proposal, CAMEX ministers did not discard it; a final decision has been postponed to allow for further analysis of the proposals and consultation with the private sector, as well as to enable Ministers to better assess the overall DDA negotiating environment. Brazil would have to consult with its Mercosul partners before offering specific tariff concessions and would likely consult with its G-20 partners as well.

10. (SBU) While some local commentators argue that Brazil needs to make a bold gesture in NAMA negotiations in order to pressure the EU and US into wanted concessions in agriculture, statements by Foreign Ministry officials suggest an entrenched reluctance to signal any flexibility in NAMA without first obtaining sufficient concrete advances in agriculture. Maia confirmed as much, saying the Foreign Ministry had prevailed in maintaining instructions for its NAMA negotiators on both support for the ABI proposal and for conditioning movement in NAMA on advances in agriculture.

11. (SBU) In discussing the predicament of a limbo in which all sides are waiting for others to expose their potential for concessions, Maia implied, what negotiators had feared,

that the Finance proposal provides some insight into Brazil's bottom line. Maia phrased it as follows: it's reasonable to conclude that the powerful and technically competent Finance Ministry would not have produced a proposal without having a good idea of what is possible. But, according to Maia, the proposal generated such a strong reaction because it is too extreme in applying an aggressive formula across the entire range of industrial products without incorporating sufficient flexibilities. She added, however, that one very positive outcome of the debate over Finance's proposal had been a clarification of the country's sensitivities.

Comment

12. (SBU) Although it is unlikely the Finance Ministry's market access proposal will be adopted as is, it may at least pull Brazil's final position toward one of greater market opening. By providing the GoB with a ready analysis of the implications of using a simple Swiss formula (with at least with one coefficient), the Finance Ministry proposal also may prove useful in lowering the barrier to an eventual acceptance by the GoB of this methodology.

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